

Nos. 22116 and 22116A

MAR 20 1968

**United States Court of Appeals
For the Ninth Circuit**

MISTER DONUT OF AMERICA, INC.,
APPELLANT,

v.

MR. DONUT INC., ET AL.,
APPELLEES.

PLAINTIFF-APPELLANT'S BRIEF

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United States Court of Appeals For the Ninth Circuit

No. 22116.

MISTER DONUT OF AMERICA, INC.,
APPELLANT,

v.

MR. DONUT INC., ET AL.,
APPELLEES.

No. 22116A.

MR. DONUT, INC. ET AL.,
APPELLANTS,

v.

MISTER DONUT OF AMERICA, INC.,
APPELLEE.

PLAINTIFF-APPELLANT'S COMBINED REPLY
BRIEF IN 22116 AND BRIEF AS APPELLEE
IN NO. 22116A

INTRODUCTION

This is a combined brief of the Mister Donut of America, Inc., hereafter referred to as plaintiff in response to the combined brief of Mr. Donut, Inc. et al., hereafter referred to as defendants, filed as appellee in Appeal No. 22116 and as appellant in Appeal No. 22116A, in accordance with the Order of this Court filed January 19, 1968.

This brief will deal with the argument of defendants in the order presented in their brief.*

RESOLUTION OF PLAINTIFF'S FEDERAL CAUSE IN FAVOR OF DEFENDANTS DOES NOT RENDER MOOT THE DISTRICT COURT'S ERRONEOUS REQUIREMENT THAT ACTUAL COMPETITION EXIST AS A BASIS FOR INFRINGEMENT, SINCE PLAINTIFF ALSO HAS A STATE CAUSE OF ACTION.

The plaintiff contended in its main brief that the district court seriously erred in holding that actual competition was a prerequisite to a finding of infringement. The defendants contend (D. Br. 3) that this argument of plaintiff was "illogical and unsound". Defendants claim that such a finding was irrelevant because (1) defendants established a defense under 15 U.S.C. 1115(b)5, and (2) its activities were outside the Lanham Act.

If either of the defenses relating to the Lanham Act referred to above are sound the issue of actual infringement and likelihood of confusion are still relevant since plaintiff's claim is premised on the common law as well as the Lanham Act. This error of the district court also cannot be ignored for the reasons stated in plaintiff's main brief.

Additionally, and of equal importance, the error of the district court is so glaring that it amounts to an indictment of the entire opinion. The district court totally misunderstood one of the simplest and most well established, basic fundamentals of trademark law. This fundamental requirement of trademark law is squarely and unequivocally set forth in the specific unambiguous language of 15 U.S.C.

* The following abbreviations will be used:

D. Br. refers to defendants-appellees brief.

P. Br. refers to plaintiff-appellants main brief.

Other abbreviations are the same as in other briefs.

1114(1) which states *inter alia*, that, "Any person who shall, without the consent of the registrant . . . use in commerce . . . colorable imitation of a registered mark in the connection with the sale . . . of any goods or services on or in connection with which such use is *likely to cause confusion*, or to cause mistake, or to deceive . . . shall be liable in a civil action." (Emphasis added). This statutory provision has been uniformly interpreted to require only a likelihood of confusion as a basis for a finding of infringement and as such it has attained a hornbook status in the decisional law. The district court's opinion is apparently the only one of perhaps thousands rendered to date which suggests that actual competition is a prerequisite to infringement. If the district court can make such a serious error relative to a basic fundamental principle of trademark law its entire opinion which includes observations on comparatively sophisticated principles involving Congressional purpose should be thoroughly reviewed.

CALIFORNIA COMMON LAW IS RELEVANT TO THESE PROCEEDINGS BECAUSE IT PROTECTS THE BROAD AREA OF NATURAL EXPANSION OF A FIRST USER OF A TRADEMARK AND PRECLUDES A SUBSEQUENT USER'S LOCAL USE WHEN SUCH LOCAL USE BEGINS UNDER CONDITIONS IN WHICH THE SUBSEQUENT USER KNEW OR SHOULD HAVE KNOWN OF THE FIRST USER'S PRIOR ADOPTION.

The defendant contends California law does not affect this case because it is the same as "the general law" and the general law protects an innocent party who adopts and uses a mark in good faith in an area remote from the prior user's area. (D. Br. 4, 5). Defendant relies upon *Tillman and Bendel v. California Packing Corp.*, 63 F. 2d. 498 (9th Cir. 1933). The *Tillman* case however does not "carte blanche" protect a subsequent user of a mark who

adopts it without actual knowledge of a prior user's claim. *Tillman* specifically imposes a duty upon a second user to avoid designs inimical to the interests of a first user. And, adopting a mark in an area of natural expansion of the first user is such an inimical design. See, *Hanover Milling Co. v. Metcalf*, 240 U.S. 403, 415 (1916).

Even if *Tillman* is construed as excusing an innocent subsequent user from the effect of California Business and Professional Code §14270, it does not follow that defendants can rely upon *Tillman*. The defendants are *not* innocent adopters of the MR. DONUT trademark since under California statutory and case law they had implied or constructive knowledge of plaintiff's prior rights which precludes a defense of innocence.

The leading relevant California cases which deal with the then famous marks Derringer, Stork Club and Brooks Bros. totally disregard actual knowledge as a controlling factor. The implication of these cases is that a defendant who ought to have known or investigated a prior right of another cannot escape the consequence of an infringement by claiming innocent adoption. See *Derringer v. Plat*, 29 Cal. 292 (1865); *Stork Restaurant v. Sahati*, 166 F. 2d 348 (9th Cir. 1948) and *Brooks Bros. v. Brooks Clothing of California*, 60 F. Supp. 442 (S.D. Cal. 1945). While in our main brief we suggested the rationale for such decision was based upon an interest in protecting the public from deceit and fraud (P. Br. 53), this requirement that a late user act prudently in selecting a mark appears to be an equally important rationale of particular application in California. See also, *Hall v. Halstrom*, 289 P. 668 (Cal. D.C. 1930), and cases cited.

The obligation to investigate prior rights of others is not limited to famous marks. California Civil Code § 19 provides:

“Every person who has actual notice of circumstances sufficient to put a prudent man upon inquiry as to a particular fact has constructive notice of the fact itself in all cases in which, by prosecuting such inquiry he might have learned such fact.”

The cases within California where this section of the Code has been applied are legion and the situations where inquiry is called for are too many to enumerate. *Sterling v. Title Ins. & Trust Co.*, 53 Cal. App. 2d 736 (1942).

In applying this section of the Code, California courts have held that each case depends upon its own facts and circumstances. *West v. Great Western Power Co. of California*, 36 Cal. App. 2d 403 (1940); *Metcalf v. Drew*, 78 Cal. App. 2d 226 (1947). This latter case stated:

“‘It may be premised that the means of knowledge must be available and of such a character that a prudent man might be expected to take advantage of them. The circumstances must be such that the inquiry becomes a duty and the failure to make it becomes a negligent omission.’ There can be no doubt that this is . . . the true rule.” *Id.* at 228. See also, *Zeller v. Mulligan*, 71 Cal. App. 617 (1925); *Hayward Lumber & Investment Co. v. Orondo Mines*, 34 Cal. App. 2d 697 (1939).

Can it be doubted that Jones, the defendant, should be charged with the duty to have made an inquiry as to the availability of MR. DONUT as a trademark. He had actual notice of circumstances which would have required any prudent man to inquire further. He was a franchisee of Winchell Donuts and therefore knew that donut businesses were being rapidly expanded via the franchise route. (R. 367 to 369). He also knew that franchised operations in-

volved not only the interests of the public but also that of many small franchisees. Finally, as a businessman, he had more than a passing knowledge about the significance of trademarks and federal trademark registrations. (R. 393, 395, 396).

The “means of knowledge” . . . that “must be available” certainly were “of such a character that a prudent man might be expected to take advantage of them.” There were no less than seven publicly available records in the Patent Office that Jones’ attorney would have fallen over if Jones had been willing to spend \$25.00 to \$50.00 to see if MR. DONUT had been used by others. And every one of them would have told Jones that plaintiff had been using MISTER DONUT for years. Additionally, there were a number of issued state trademark registrations of plaintiff. Not only were these records available but their very purpose and existence, as any competent attorney could have told Jones in 1957, was to warn him of plaintiff’s claim. That Jones was imprudent in not making a standard trademark search is an understatement. He was downright negligent for he certainly had a duty and obligation to the public in general to avoid a course of action that might create a source of confusion and deceit to them.

Surely in the light of these circumstances the “means of knowledge, *especially where it consists of public records* as is manifest in this case from the complaint itself is deemed in law to be knowledge. *Lady Washington Consol. Co. v. Wood*, 113 Cal. 482, 45 P. 809; *Consolidated R. & P. Co. v. Scarborough*, 216 Cal. 698, 16 P. 2d 268.” *Wheaton v. Nolan*, 3 Cal. App. 2d 401, 403 (1934) (emphasis added).

DEFENDANTS’ RELIANCE UPON THE *Fairway* CASE IN CONTENDING DEFENDANTS’ INFRINGING ACTIVITIES ARE NOT AMENABLE UNDER THE LANHAM ACT IGNORED THE FACTUAL DISTINCTIONS OF THAT CASE AS WELL AS THE CONGRESSIONAL

PURPOSES IN ENACTING THE LANHAM ACT TO REGULATE ALL
COMMERCE WITHIN ITS CONTROL.

Pages 38 to 40 of plaintiff's main brief deal with defendants' contentions that *Fairway Foods, Inc. v. Fairway Markets, Inc.*, 227 F. 2d 193 (9th Cir. 1955) supports the district court's conclusion that defendants' activities do not affect interstate commerce and therefore they are not amenable under the Lanham Act. (D. Br. 6).

But additional comments may be helpful. The *Fairway* case is not in point since the defendant's intrastate activities there were not on a collision course with plaintiff's interstate activities, while in the instant case the parties have already collided. The defendants and the district court overlook the following important distinctions between *Fairway* and the present case:

1) In *Fairway* the plaintiff did not compete by operating or licensing stores in defendant's state of California. The present plaintiff does. (R.T. 56).

2) In *Fairway* the plaintiff did not have prospective franchisees or licensees refuse to take franchises because of defendant's use of a confusingly similar name. The present plaintiff already has been damaged by three such actual refusals. (R.T. 253, 256, 295 to 297, 309, Ex. 76, 93).

3) In *Fairway* the plaintiff was not actively soliciting franchisees and new store sites in the very same county in which defendant operated. The present plaintiff is actively seeking locations in defendants' Orange County in competition with defendants. (R.T. 74-81, Ex. 108, 113-116).

4) In *Fairway* the defendant did not admit to likelihood of confusion. Here defendants expressly admitted that likelihood of confusion between the two marks was probable. (R.T. 397).

5) In *Fairway* defendant operated a single store with no indications of intended expansion. Here defendants operate and franchise seven stores and assert an intention to substantially expand in competition with plaintiff. (D. Br. 10).

6) In *Fairway* defendant did not franchise others. Here defendants do franchise others. (R. 581).

7) In *Fairway* defendant operated a small grocery store catering entirely to local customers. Here defendants' customers include those who travel in interstate commerce. (R. 581).

The distinctions between this case and the *Fairway* case would appear to be as significant as those in *Drop Dead Co., Inc. v. S. C. Johnson & Son, Inc.*, 326 F. 2d 87 (9th Cir. 1963); See also, *Safeway Stores, Inc. v. Rudner*, 246 F. 2d 826 (9th Cir. 1957).

Although the defendants rely upon Finding of Fact 19 (R. 581) in support of their contentions that *Fairway* is in point, they also accepted the above enumerated distinctions since these distinctions are based on facts accepted by defendants. (Compare P. Br. 11 to 13 and D. Br. 2). It is hard to imagine that *Fairway* stands for the proposition that this Court is not empowered by the Lanham Act to control defendants' operations which include actively seeking franchisees in competition with plaintiff's franchising program in Orange County, where defendants' actions have already materially affected interstate commerce by causing prospective franchisees to refuse to do business with plaintiff. The damage and confusion to the public is bound to increase if not checked by this court since plaintiff has a number of operating franchisees in California and defendants have asserted, "In this regard, defendants fully intend to expand within the Southern Cali-

ifornia area but have held off such expansion pending the outcome of this lawsuit.” (D. Br. 11).

UNDER THE LAWS OF CALIFORNIA, PUBLICATION FOR OPPOSITION BY THE UNITED STATES PATENT OFFICE OF PLAINTIFF’S “MISTER DONUT” MARK AND OTHER PUBLIC RECORDS CONSTITUTE CONSTRUCTIVE NOTICE OF PLAINTIFF’S CLAIM OF OWNERSHIP OF “MISTER DONUT” AND THEREFORE DEFENDANTS CANNOT AVAIL THEMSELVES OF DEFENSES UNDER 35 U.S.C. 1115(b).

Defendants’ claim that the publication by the Patent Office on November 12, 1957 (several weeks before defendants started in business) of plaintiff’s Registration 668,784 (Ex. 2) under the provisions of 15 U.S.C. 1062(a) was not constructive notice of its claim to MISTER DONUT, because such a publication was not one of “... the records designated in” ... 15 U.S.C. 1115(b) (D. Br. 9). Defendants’ answer totally ignores the point made by plaintiff on page 30 of its main brief that 15 U.S.C. 1115(b) *does not enumerate any* publicly available documents which serve as constructive notice. It does on the other hand require defendants to establish two conditions if the defendants are to be permitted a defense of innocence. They are (1) that defendants’ use was without knowledge of plaintiff’s earlier use and (2) defendants’ use was continuous from a date prior to the date of plaintiff’s registration. Therefore even if we assume defendants used their mark continuously from a date prior to plaintiff’s registration, the defendants still have to establish that their use was without knowledge of plaintiff’s earlier use. And since 15 U.S.C. 1115(b) does not define knowledge, actual or constructive, such definition must be found elsewhere.

In our main brief we pointed out that a reading of other sections of the Lanham Act requires a holding that publi-

eations of the Patent Office should impose constructive notice of the facts published upon concerned parties (P. Br. 31, 32).

But we need not rely solely upon an interpretation of the Lanham Act, for if the Lanham Act is construed as not giving direction one way or the other with respect to what constitutes notice, actual or constructive, the void is clearly filled by existing California law.

Defendants had constructive knowledge of plaintiff's earlier use of MISTER DONUT under the Lanham Act for the same reasons that they had constructive knowledge under the laws of the State of California, Civil Code §19. (see *infra* p. 5). See also, California Business and Professional Code § 14400 relating to trade names (Appendix A).

Defendants assert that plaintiff's interpretations of the Lanham Act provisions are unsound because plaintiff failed to support its position with case authority (D. Br. 9, 10). But defendants overlook, pages 31 and 32 of plaintiff's main brief, which extensively cite case and commentator in direct support of these contentions.

CASES CITED BY DEFENDANTS DO NOT SUPPORT THEIR CLAIMS FOR EXCLUSIVE RIGHTS IN SOUTHERN CALIFORNIA FOR "MR. DONUT", BUT RATHER CLEARLY INDICATE THAT UNDER NO COMMON LAW CIRCUMSTANCES CAN DEFENDANTS ASSERT A TERRITORIAL RIGHT BEYOND THE FOUR MILE AREA SURROUNDING THE ONLY SHOP THEY HAD OPENED AT THE TIME PLAINTIFF'S REGISTRATION ISSUED. FURTHER THE AREA THAT DEFENDANT'S MIGHT OPERATE IN, IF A DEFENSE IS ESTABLISHED UNDER 15 U.S.C. 1115(b), IS TO BE DETERMINED UNDER THE LANHAM ACT AND NOT BY COMMON LAW CASES.

Defendants argue they should be permitted to use the mark Mr. DONUT throughout the southern part of the State

of California if this Court concludes that they adopted the mark without notice, constructive or actual, of the plaintiff's prior use. Defendants rely upon *Federal Glass Co. v. Loshin*, 224 F. 2d 100 (2nd Cir. 1955) and *Western Oil Refining Co. v. Jones*, 27 F. 2d. 205 (6th Cir. 1928). But neither of these cases is in point. These cases stand only for the proposition that a common law tradename will be afforded an exclusive territorial right in the specific area in which a *reputation has been established*. See also, *Hanover Milling Co. v. Metcalf*, *supra*. Neither *Federal Glass* nor *Western Oil* deal with 15 U.S.C. 1115(b) 5, or for that matter relates in any way to any Federal trademark law including the Lanham Act. The factual importance of statewide advertising and use as a basis for claiming rights throughout the state can be gauged from the opinion in the *Western Oil* case where the court noted, ". . . Such expansions as to a trade-name for gasoline, in view of modern transportation methods and the fact that many purchasers are travelers from a distance, would ordinarily embrace at least the entire state, in which there *had been a widespread advertisement and use* of the name in the major part of the state. *There had been such use by appellant of its name, . . .*" (emphasis added). *Id* at 205.

But defendants' MR. DOWRT mark had only been used in a single shop catering to customers within a four mile radius in 1957 and therefore did not have any significant extraterritorial reputation then. Furthermore we are dealing with plaintiff's rights asserted under the Lanham Act and the defense posed by defendants is not a common law defense but a defense specifically defined by 15 U.S.C. 1115(b) 5.

As stated in NIMS, *The Law of Unfair Competition and Trademarks*, Section 35A (1947) (cited in *Federal Glass*), "While the concept of goodwill has become less closely confined territorially, it still has boundaries, and even

under modern doctrine it is necessary that there be evidence of its existence to warrant its protection. Its extent is a question of fact rather than of law." Since defendants confined their use of MR. DONUT before plaintiff's pending registrations issued to one store that catered to a clientele within a maximum radius of 4 miles, and since defendants were not in the franchising business until 1963 it simply does not make sense to proliferate an admittedly confusing situation to the public by allowing a defendant to expand its use after it has notice of plaintiff's registration, from a single shop to the entire southern half of the State of California.

Defendants do not distinguish *John R. Thompson Co. v. Holloway*, 366 F. 2d. 108 (5th Cir. 1966) cited by plaintiff in support of its contentions that, at best, plaintiff should be limited to a single shop (P. Br. 48), but do attempt to distinguish *Food Center, Inc. v. Food Fair Stores, Inc.*, 242 F. Supp. 785 (D. Mass. 1965). The basis for distinguishing the *Food Center* case is not sound for irrespective of whether there was prior litigation and whether defendants were entitled to use the mark with a descriptive prefix in a limited area, the issue there still came down to whether defendants could use a limited right in a mark as a lever to later expand its rights and preclude the prior out-of-state user from operating in other parts of the State of Massachusetts.

In addition to these cases which severely limited the rights of a local user to its area of actual use, there are a number of other relevant cases which illustrate the territorial limits afforded common law trademarks. *Jacobs v. Iodent Chemical Co.*, 41 F. 2d 637 (3rd Cir. 1930) held the senior user's rights in the mark IODENT were confined to the locality of Paterson, New Jersey, rather than the entire state since the senior party had only operated in the Paterson area. The court noted that

the state boundaries are important only when the rights conferred are those conferred by the state. The court noted: "It follows that whether a first adopter of a trademark may be restricted to a territory less in area than that of a state is still an open question to be decided, we think, in the particular facts of the case."

In *Food Fair Stores, Inc. v. Square Deal Market Co., Inc.*, 206 F. 2d 482 (D.C. Cir. 1953) the court rejected a claim to a statewide right in a trademark. It stated:

"Plaintiff-appellant's main contention on this appeal is that the District Court should at least have found plaintiff entitled to exclusive use of the name "Food Fair" in the Maryland counties adjacent to the District. It points out that it was indisputably first to make significant use of the name "Food Fair" in Maryland as a whole. And it claims that "significant use of a trade name within a state preempts the [whole] territory of that state for the prior user," whether or not the state includes some areas which are economically oriented to or integrated with urban centers in other states. It thus concludes that, because of its unquestioned priority in Baltimore, the District Court should have treated the disputed Maryland counties separately from the District of Columbia and awarded them to plaintiff. We think appellant's position is untenable. It is supported, to be sure, by a dictum of Mr. Justice Holmes in a concurring opinion in *Hanover Star Milling Co. v. Metcalf*, 240 U.S. 403 (1916), to the effect that rights in trade names are statewide. But Mr. Justice Holmes' view has not found general acceptance, and we have no basis for thinking that it represents the law in the states bordering on the District of Columbia." *Id* at 484.

Katz Drug Co. v. Katz, 188 F. 2d 696 (8th Cir. 1951) held that a property right in a trade name is a right appurtenant to an established business or trade area in which the mark has been employed and that the sole exception rests on state statutes where the statute confers state-wide protection. In advancing this theory the court stated:

“The appellant’s contention that because its trade name has had secondary meaning in Kansas City, Missouri and should be held to have the same meaning throughout the state of Missouri and therefore in the St. Louis area, appears to be without merit. It is in conflict with the concept of property in a trade name being exclusively a right appurtenant to an established business or trade with which the mark is employed. The exception appears to be the cases that rest on state statutes conferring state-wide protection.” See e.g. *ABC Stores, Inc. v. T. S. Richey Co.*, Tex. Com. App., 280 S. W. 177. Id at 699.

Thus, defendants’ contention that “area” as used in 15 U.S.C. 1115(b) is to be construed as statewide finds no support in case law construing this federal statute, and to the extent that the common law is analogous the decisions are also at variance with defendants’ position. See also VANDENBURG, *Trademark Law and Procedure* (1959), pp. 51, 52.

PLAINTIFF WAS ENTITLED TO RELY UPON THE PATENT OFFICE RECORD AT A TIME WHEN JEAN ZIEBELL’S USE OF “MR. DONUT” WAS ENURING TO THE BENEFIT OF THE RAGSDALE ESTATE.

The defendants have seriously misstated the arguments advanced by the plaintiff in support of Specification of Error 6. (D. Br. 11). The plaintiff did not concede, as

suggested by the defendants, that plaintiff did not acquire goodwill with its purchase of the Ragsdale registration. Therefore defendants' lengthy argument that plaintiff's rights were acquired in gross is a misleading argument based upon a misrepresentation of plaintiff's position. What the plaintiff contends is simply that it bought a valid trademark since the trademark was being used by Jean Ziebell and generating goodwill. And as an innocent purchaser for value it is entitled to rely upon the Patent Office records which clearly showed that the mark and registration which it purchased for valuable consideration was owned by Ragsdale's estate. We admit that the situation would not be the same and that plaintiff would not have received good title to the Ragsdale mark if Ziebell had not been operating under the MR. DONUT mark. In such case the mark would obviously have been purchased in gross since it was no longer being used. But that is not the case as established by the defendants themselves.

The defendants also contend that the MR. DONUT mark was abandoned because Ragsdale apparently died within two years of the sale of his business in 1951 to Ziebell. But the plaintiff is not relying upon Ragsdale's non-use of the mark between 1951 and 1956. The goodwill which the plaintiff claims is transferred to it was the goodwill generated by Ziebell between 1951 and 1956.

Implicitly the defendants admit that had Ziebell been assigned the Ragsdale registration and the plaintiff thereafter obtained it from her in 1956 defendants could not seriously contend that the assignment was in gross and the registration void because she had been using MR. DONUT for years. Why, therefore, should the plaintiff be penalized because it relied upon the record in the Patent Office regarding the owner of the Ragsdale registration rather than conduct investigation outside of this record. Such contentions ring hollow in the light of

the defendants' total failure to make even the most cursory examination of the records when it first adopted its infringing mark MR. DONUT. And regardless of whether or not the Ragsdale assignment was valid there remains the proposition of plaintiff, unanswered by defendants, that the mere recording of that assignment was the type of information or circumstances that would have put a prudent man on notice to investigate further. See California Civil Code §19.

The cases cited by the defendants on pages 12 to 14 of their brief stand for nothing more than the proposition that a trademark cannot be assigned unless there is a going business. The plaintiff does not disagree with this proposition, but such proposition is obviously not applicable since there was in fact a going business to be assigned.

DEFENDANTS DID NOT RESPOND TO THE ARGUMENTS MADE RESPECTING SPECIFICATION OF ERROR #10.

The only response to the plaintiff's Specification of Error #10 is its contention that this Court has held that the "incontestability" feature of 15 U.S.C. 1065 is defensive and not offensive, citing *Tillamook County Creamery Association v. Tillamook Cheese and Dairy Association*, 345 F.2d 158 (9th Cir. 1965). But the plaintiff doesn't contest the holding of *Tillamook* and in fact cited it on page 56 of its main brief. On that page the plaintiff pointed out that we need not consider that aspect of the Lanham Act. Specification of Error #10 was primarily an equitable argument which was dealt with from page 49 to page 51 of the plaintiff's main brief. The defendants do not answer any of the issues raised on those pages.

DEFENDANTS ARE NOT ENTITLED TO ATTORNEY'S FEES BECAUSE THEY FAILED TO PROVE THE DATES ALLEGED BY PLAINTIFF IN ITS REGISTRATION WERE FALSE, AND EVEN IF FALSE THEY FAILED TO PROVE THE DATES ALLEGED WERE

FRAUDULENTLY ASSERTED FOR PURPOSES OF OBTAINING A REGISTRATION. FURTHER, EVEN IF PLAINTIFF WAS FRAUDULENT IN OBTAINING ITS REGISTRATION DEFENDANTS HAVE NOT PROVED DAMAGES.

In their cross appeal defendants demand attorneys' fees under 15 U.S.C. 1120, citing as "the leading case" *Academy Award Products, Inc. v. Bulova Watch Co., Inc.*, 233 F.2d 449 (2nd Cir. 1956). They further state on page 23 of the brief that the *Academy Award* case was "affirmed by the District Court, S. D. New York in *Merry Hull & Co. v. Hi-Lin Co.*, 243 F. Supp. 45 (July 1965)." The defendants' claims for attorneys fees totally ignore the district court's specific Findings of Facts No. 8 and No. 25 which respectively reads in part, "Plaintiff commenced using the mark MISTER DONUT about August 1955, when plaintiff was known as Harwin Management Corp. . ." (R. 578), and, "25. Any conclusion of law hereinafter recited which should be deemed a finding of fact is hereby adopted as such." (R. 582) Defendants also ignore Conclusion of Law No. 9 which reads, "9. Plaintiff is not guilty of unclean hands". (R. 583).

Unless these findings are upset there is absolutely no basis upon which defendants can assert a claim for attorneys fees. The defendants have attempted to upset these findings by citing very limited passages of the testimony of David Slater. But the trial court's findings were obviously not based upon these segmented portions of testimony. The relevant testimony extends over at least 35 pages of the transcript (R. 180 to 215 inclusive). A fair interpretation of *all* the testimony elicited from David Slater shows he testified to his understanding of the facts, since he was not working for plaintiff in 1955. He stated that the first use and first use in interstate commerce of the mark MISTER DONUT consisted of special shipments and

sales made by Harry Winokur before the setting up of the first Mister Donut shop. He also testified that plaintiff's first shop catered to customers some of whom arrived in out of state cars. David Slater also testified that Harry Winokur made preparations as early as January 1955 for the opening of the first Mister Donut shop and took every possible precaution to assure himself of ownership of the mark MISTER DONUT. These preparations included transportation and sale in interstate commerce of donuts under the trademark MISTER DONUT in August 1955, the date alleged in the registrations as the dates of first use. He also testified that he made extensive use of the mark in connection with the preparation of the operations of plaintiff's snack bar in August 1955. Since the district court's findings of fact were based upon substantial testimony such findings should not be overturned unless clearly erroneous. And merely citing limited portions of this testimony which is devoid of any permissible inferences of fraudulent intent falls far short of showing the district court was clearly erroneous.

Section 45 of the Trademark Act of 1946 (15 U.S.C. 1127) defines "use in commerce" as:

"For the purposes of this Act a mark shall be deemed to be used in commerce (a) on the goods when it is placed in any manner on the goods or their containers or the displays associated therewith or on the tags or labels affixed thereto and the goods are sold or transported in commerce and (b) on services when it is used or displayed in the sale or advertising of services and services are rendered in commerce, or the services are rendered in more than one State or in this and a foreign country and the person rendering the services is engaged in commerce in connection therewith."

The actual use of the mark MISTER DONUT made by the plaintiff in August 1955 comes within the definition set forth above. And in any event the nature of plaintiff's use in August 1955 is certainly not so far afield from the quoted definition of use in commerce as to amount to fraud.

This Court has already rejected contentions such as made by defendants in *Drop Dead Co., Inc. v. S. C. Johnson & Son, Inc.*, *supra*, where appellants unsuccessfully argued that a single shipment of goods was a "colorable" use rather than an "actual" use. The Court stated:

Appellants attempt (Op. Br. 46 ff) to avoid this conclusion by the contention that the sending of the item for such use was not an *actual* use but only a *colorable* use, in that it was only transported to obtain the trademark. Appellants try to show that it is "plainly apparent from the context [of the trademark statutes]" (15 U.S.C. §1127) that colorable use was to be distinguished from actual use. However, we think that the statute makes no such distinction. Its language is clear. If the label is affixed and the goods transported in commerce, the mark is "used in commerce." *Id* at 93.

The defendant has failed to show that plaintiff's purpose in setting forth the August 1955 dates was fraudulent or that it willfully and falsely asserted these dates for the purpose of wrongfully obtaining a registration. *Universal Overall Co. v. Stonecutter Mills Corp.*, 145 U.S. P.Q. 567 (P.O. T.T. & App. Bd. 1965). This defense requires that the defendants show that "the mark was obtained fraudulently". Thus even if the alleged dates of August, 1955 were incorrect it does not follow that the dates set forth were fraudulent or that the registration was obtained fraudulently. *Cf. Laud O'Lakes Creameries v.*

Oconomowoc Canning Co., 221 F. Supp. 576 (E.D. Wis. 1963). A mere misstatement of a date of first use in a trademark registration cannot in and of itself afford a basis for cancellation of the registration. *Walworth Co. v. Moore Drop Forging Co.*, 19 F.2d 496 (C.C.A. 1, 1927); *National Tuberculosis Association v. Summit County Tuberculosis & Health Assn., et al.*, 101 U.S.P.Q. 387 (D.C. Ohio 1954); *Philco Corp. v. Cary Corp.*, 123 U.S.P.Q. 420 P.O.T.T. & App. Bd. 1959). A substantially similar problem was presented in *Travelodge Corp. v. Siragusa*, 228 F. Supp. 238, (N.D. Ala. 1964). The court stated:

“(4) Defendants further seek to avoid the effect of the registration of plaintiff’s mark under the Lanham Act on the ground that such registration was fraudulently obtained and in their counterclaim pray for the cancellation of such mark. Section 1115(b) (1) unquestionably provides that the registration shall not be conclusive evidence of exclusive right to use the mark if ‘the registration or the incontestable right to use the mark was obtained fraudulently.’ Likewise, Section 1119 grants this court power to order cancellation of the registration and Section 1064 includes as grounds for such cancellation: ‘[I]ts registration was obtained fraudulently.’ Defendants argue that the affidavit of Scott King that the service mark was first used in May of 1939 as contained in the application for registration is false in that the evidence shows that the opening date of the first Travelodge Motel was in 1940 and that the mark was not being used in commerce. Plaintiff’s witness, Scott King, admitted that the first Travelodge was not opened until 1940. He testified, however, that his statement in the application that the name was first used in May of 1939 was based on the fact that he

was at that time in the construction business and actively seeking persons from various states who might wish to construct motels and in that connection he was discussing with others having a potential interest the use of the name 'Travelodge'. Whether or not such use of the name constituted use of the mark under the Lanham Act is unnecessary for decision for two reasons. *First, there is no evidence of permissible inference that the facts stated in the affidavit, even if false, were fraudulent.* Defendants assumed, but did not discharge, the burden of proving such fraud, not just some misstatement in the affidavit. *Seaporcel Motels, Inc. v. American Siporek Corp.*, 125 U.S.P.Q. 664; *Philco Corp. v. Clary Corp.*, 123 U.S.P.Q. 420. *National Tuberculosis Ass'n. v. Summit County Tuberculosis & Health Ass'n.*, 122 F. Supp. 654, N.D. Ohio 1954." (Emphasis added) Id at 242.

The defendants are not entitled to recover anything even if plaintiff obtained fraudulent registrations because there is not a scintilla of evidence that the defendants were damaged as a result of such registrations. Plaintiff, irrespective of the registrations which the defendants claim were fraudulently asserted, had a cause of action against defendants based upon its common law rights and upon its Ragsdale registration. Both of these rights were asserted below, and are being asserted in this Court. Consequently the attorney's fees claimed also have been spent to defend a cause of action which defendants have not asserted is fraudulently founded. And since defendants would have had to defend these claims in any event it has not established damages.

Furthermore, the defendants have improperly pleaded their charge of fraud since they have not complied with the

requirements of Rule 9(b) of the Federal Rules of Civil Procedure. *Seaportel Motels, Inc. v. American Siporek Corp.*, 125 U.S.P.Q. 664, (P.O.T.T. & App. Bd. 1960). Had the defendants seriously believed that the plaintiff had willfully falsified dates in representations to the Patent Office for the purpose of procuring registrations, the defendants could have explored the issue more completely in depositions long prior to the trial and could have properly pleaded the issue. The defendants were informed early in these proceedings by way of Plaintiff's Answer to Defendants Interrogatory No. 6 that plaintiff's counsel David Wolf and Harry Winokur were those having the most knowledge about the circumstances of first use and not David Slater who was not employed by plaintiff in 1955. No attempt was made by the defendants to depose either of these individuals nor was any attempt made to list either of these individuals in the Pre-Trial Order as possible defendants' witnesses.

Not only did defendants fail to plead their charge of fraud but they have waived whatever claims or rights they might have even if plaintiff's past actions were improper. In Defendants' Brief After Trial defendants withdrew their demands for cancellation of plaintiff's registrations (R. 498, 499). Such withdrawal should operate as a waiver or estoppel to any claim for attorney's fees based upon a charge that plaintiff has improperly obtained such registrations.

The defendants' attempts to analogize the *Academy* case with the facts of the present case are improper. The *Academy* case involved an *obvious* fraud situation. There the registrant was not in business, had no intentions of going into business and made clear and palpable fraudulent representations to the Patent Office solely for the purpose of obtaining a series of registrations. The following passage in the eleven page opinion of the trademark cancellation

proceedings, *Academy v. Academy Award Products, Inc.*, 89 U.S.P.Q. 451 (P.O. Ex. in Ch. 1951), illustrates the purely fraudulent nature of the registrant's activities:

"...The entire transaction in so far as it relates to the use of a trade mark on goods in trade, can not be considered bona fide and such as to create ownership of the trade mark in respondent. Respondent was not engaged in any business (other than the spurious one of trying to get trade marks without any business) and the purported use of the trade mark on goods in trade can only be characterized as a mere pretense and subterfuge, carried out for the sole purpose of laying a basis for securing the trade mark registrations. . .

"...All of the registrations were also obtained fraudulently in view of the other numerous false statements made in the applications. . ." *Id* at 460, 461.

In the present case it is clear that even if the dates alleged in plaintiff's registrations were incorrect, the registration would have issued for plaintiff's trademark was in continuous interstate use at the time of registration.

The recent Supreme Court case of *Fleischmann Distilling Corp. v. Maier Brewing Co.*, 386 U.S. 714 (1967) is relevant. In that case the Supreme Court held that an award of attorney fees was not proper under Section 35 of the Lanham Act as compensation for infringement. In reaching this decision the Court noted that "...our courts have generally resisted any movement in that direction. The rule here has long been that attorney's fees are not ordinarily recoverable in the absence of a statute or enforceable contract providing therefor. This Court first announced that rule in *Arcambel v. Wiseman*, 3 Dall. 306 (1796), and adhered to it in later decisions. See, e.g. *Hau-*

enstein v. Lynham, 100 U.S. 483, (1880); *Stewart v. Sonneborn*, 98 U.S. 187 (1878); *Oelrichs v. Spain*, 15 Wall. 211 (1872); *Day v. Woodworth*, 13 How. 363 (1851).” The thrust of the *Fleishmann* case is that in the absence of specific statutory language no attorney’s fees should be awarded.

CONCLUSION

For the foregoing reasons plaintiff respectfully requests that the judgment of the district court be reversed.

Dated: April 15, 1968

Respectfully submitted,
 WOLF, GREENFIELD & HIEKEN
 by (s) DAVID WOLF
 LEONARD H. MONROE

CERTIFICATE

I certify that, in connection with the preparation of this brief, I have examined Rules 18, 19 and 39 of the United States Court of Appeals for the Ninth Circuit and that, in my opinion, the foregoing brief is in full compliance with those rules.

DAVID WOLF,
Attorney

APPENDIX A

California Business & Professional Code § 14400:

Any person who has adopted and used a tradename, whether within or beyond the limits of this State is its original owner.

